

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 USIA-06 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 L-03 H-01 PA-01 /101 W
-----068798 110838Z /13

R 101243Z MAR 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6615
DEPARTMENT TREASURY
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION USBERLIN
USMISSION USNATO
AMCONSUL FRANKFURT
AMCONSUL MUNICH
AMCONSUL DUSSELDORF
AMCONSUL BREMEN
AMCONSUL HAMBURG
AMCONSUL STUTTGART

C O N F I D E N T I A L SECTION 01 OF 02 BONN 04368

USEED, USOECD ALSO FOR EMBASSY
DEPARTMENT PASS FRB AND CEA

E.O. 11652: GDS
TAGS: EFIN, GW
SUBJECT: ECONOMICS MINISTRY CAUTIOUSLY OPTIMISTIC
ABOUT REALIZATION OF GNP GROWTH TARGET

REF: BONN 03871

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1. SUMMARY -- FRG OFFICIALS ARE WORRIED THAT WAGE
SETTLEMENTS AND EXCHANGE RATE DEVELOPMENTS WILL HAVE
UNFAVORABLE IMPACT ON ECONOMIC UPTURN. PRESENT
INDICATIONS, HOWEVER, ARE THAT FRG SHOULD ATTAIN, OR
COME CLOSE TO, GNP GROWTH TARGET FOR 1978 ALTHOUGH
WAGE NEGOTIATIONS AND EROSION OF BUSINESS CONFIDENCE
CAUSE CONCERN. END SUMMARY.

2. EMBOFF MET WITH MIDDLE-LEVEL ECONOMICS MINISTRY OFFICIAL RESPONSIBLE FOR SHORT-TERM FORECASTING ON MARCH 9 TO DISCUSS RECENT ECONOMIC DEVELOPMENTS AND THEIR IMPACT ON FRG TARGETS FOR 1978. OUR CONTACT WAS MOST CONCERNED ABOUT THE COURSE WAGE NEGOTIATIONS WERE TAKING. A STRIKE IN THE STEEL AND METAL INDUSTRY, HE SAID, WOULD ALMOST SURELY RESULT IN A WAGE AGREEMENT INCOMPATIBLE WITH THE FRG'S WAGE COST GROWTH TARGET OF NO MORE THAN 5.5 PERCENT. HE SAW 6 PERCENT AS NOW MORE PROBABLE OUTCOME. TOGETHER WITH RECENT APPRECIATIONS OF THE MARK, THIS WAS BOUND TO HAVE SOME NEGATIVE IMPACT ON EXPANSION-TYPE INVESTMENT EVEN IF A POSITIVE EFFECT ON LABOR SAVING INVESTMENT. UPSHOT WOULD BE TO JEOPARDIZE GOVERNMENT'S HOPES THAT PRESENT FISCAL PROGRAMS WOULD BE SUFFICIENT TO SUSTAIN ECONOMIC UPTURN THROUGH END OF 1978.

3. DOWNTURN IN INDUSTRIAL ORDERS AND IN BUSINESS CONFIDENCE INDICATOR FOR JANUARY COULD, HE THOUGHT, REFLECT BUSINESS UNEASE WITH EXCHANGE RATE AND WAGE NEGOTIATIONS DEVELOPMENTS. FORECASTERS WILL HAVE BETTER PERSPECTIVE ON BUOYANCY OF RECENT ECONOMIC UPTURN WHEN FINAL FIGURES FOR ORDERS AND PRODUCTION FOR JANUARY ARE IN (THEY CAN DIFFER SIGNIFICANTLY FROM PRELIMINARY FIGURES).
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-----068813 110837Z /13

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 04368

4. HE THOUGHT GNP GROWTH OF 3.5 PERCENT WAS, AT LEAST
FOR THE PRESENT, WELL WITHIN LIMITS OF FRG GROWTH
POSSIBILITIES. HE CAUTIONED THAT THIS FORECAST HAS
BEEN MADE WHEN THE EXCHANGE RATE WAS ABOUT DM 2.15 TO
THE DOLLAR. EMBOFF ASKED WHETHER SMALL PERCENTAGE
DECLINE IN DOLLAR/DM RATE WAS LIKELY TO HAVE MUCH
EFFECT ON GERMAN EXPORTS AND, IF NOT, WHETHER THE
ECONOMICS MINISTRY EXPECTED A LARGER
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REVALUTATION OF THE MARK, AS SOME HAD INTERPRETED RECENT
REMARKS BY ECONOMICS MINISTER LAMBSDORFF (REFTEL). OUR
CONTACT ACKNOWLEDGED THAT ON BASIS OF PAST EXPERIENCE
SMALL CHANGES PROBABLY WOULD NOT HAVE MUCH EFFECT ON 1978
EXPORTS. HE WAS PUZZLED BY LAMBSDORFF'S PUBLIC REMARKS
WHICH DID NOT REPRESENT VIEWS OF ANY ECONOMICS MINISTRY
OFFICIALS HE KNEW. HOWEVER, SOME FINANCE MINISTRY
OFFICIALS, HE SAID, WERE TALKING ABOUT THE
POSSIBILITY THAT THE DOLLAR WOULD DROP TO DM 1.80.

5. HE SAW NO NEED FOR THE FRG TO UNDERTAKE ANY NEW
STIMULATIVE MEASURES, AT LEAST FOR THE TIME BEING,
ALTHOUGH THE GOVERNMENT WOULD HAVE TO THINK ABOUT NEW
POLICIES SHOULD THE ECONOMIC UPTURN BEGIN TO FLAG.
POLITICAL SITUATION COULD MAKE IT STILL MORE DIFFICULT
TO INTRODUCE ADDITIONAL FISCAL MEASURES IF THE SPD
FARED BADLY IN MAY LAENDER ELECTIONS. OUR CONTACT
REGRETFULLY ACKNOWLEDGED THAT, IN ADDITION TO PUBLIC'S
ABHORRENCE OF GOVERNMENT DEFICITS, ECONOMIC POLICY

PLANNERS CONFRONTED BUREAUCRATIC OBSTACLES,
PARTICULARLY FROM FINANCE MINISTRY, IN CONSIDERATION OF
STIMULATIVE MEASURES. THE QUALITATIVE DISTINCTION
BETWEEN THE GOVERNMENT BUDGET AND THE HOUSEHOLD BUDGET
HAS NEVER GOTTEN THROUGH TO THEM, HE ADDED. IN GERMAN,
THE TWO ARE EXPRESSED BY THE SAME WORD (HAUSHALT).
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